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C O N F I D E N T I A L SECTION 01 OF 03 ANKARA 004935

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DEPT ALSO FOR EUR MATT BRYZA AND STEVE HELLMAN

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SUBJECT: TURKEY AND SOUTHERN GAS CORRIDOR - NUDGING JELLO  
ACROSS THE TABLE

REF: A. ANKARA 4728

[1](#)B. ATHENS 2078

[1](#)C. BAKU 1193

[1](#)D. ASHGABAT 884

Classified By: AMBASSADOR ROSS WILSON FOR REASONS 1.5 (B AND D)

[1](#)1. (C) Summary: Turkey's Energy Minister Hilmi Guler told Ambassador August 23 that he would welcome U.S. help in facilitating meetings aimed at gaining a common, clear, commercially viable way forward on the southern gas corridor to Europe. He obsessed about the undesirability of a simple, open transit regime that would assist mainly Iran; repeated longstanding skepticism about how much Caspian gas there is; and waffled on whether Turkey will be a pure transit country or whether it seeks a buyer/seller role to manage gas trade across its territory. He also sees a more immediate northern Iraq gas option than may be realistic. While Guler is aware of the need to act quickly in securing viable southern corridor arrangements, we still have some work to do in nudging Turkey towards a workable gas transit regime. End Summary.

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Moving from Pipe-Dream to Southern Gas Corridor  
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[1](#)2. (C) Ambassador told Guler that we had a small window in which to build a framework that would facilitate long-term European and Caspian purchase and delivery commitments and help lead to investments to support them. This would assure diversity, security, and affordability of supply for Turkey and Europe. The task was to translate this "pipe dream" into reality. In terms of process, Ambassador looked toward a series of working group meetings that we were prepared to help facilitate: Turkey-Azerbaijan, Turkey-Azerbaijan-Greece-Italy-(Georgia?), and a larger group to include Nabucco partners.

[1](#)3. (C) Ambassador said he understood there were different models under consideration in Turkey about how to structure

Turkey's role -- a transit country/transit fee role versus a buyer/seller of gas. The U.S. needed to have a clear understanding of Turkey's views, as will also potential buyers, sellers, and investors. In our view, clear and simple transit fee arrangements would help facilitate the investment and purchase decisions necessary to bring a southern gas corridor into reality.

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Where will the Gas Come from? - Iran is the Obstacle  
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14. (C) Guler identified a number of key obstacles: unclear intent and exaggeration of gas supplies by all countries, Russian pressure, and some countries "acting without good principles". But, the real issue was Iran. Guler insisted his main goal was to avoid filling Turkey's pipelines with Iranian gas destined for Europe. He wanted to leave Iran with "no hope." The Minister vigorously objected to direct talks between some European countries and Iran, without including Turkey. Iran was an unreliable supplier, evidenced by arbitrary cuts to Turkey in the winter when gas was most needed.

15. (C) Guler lamented that his objections to Nabucco partners' direct "flirtation" with Iran was feeding the false impression that Turkey was an obstacle to realizing the southern gas corridor. Guler feared that Iranian gas would be the greatest beneficiary of an open and favorable transit regime. But, there would be no reciprocal open and favorable transit regime for Turkmen gas across Iranian territory. As a non-signatory to the Energy Charter, Iran need not offer any similar transit arrangement for Turkmen gas. Europeans

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should pressure Iran to provide the same favorable transit of Turkmen gas across its territory that Iran sought across Turkey's.

16. (C) The only way to prevent Iranian domination that Guler could see is for Turkey to be a trader in gas. Without excluding the option of negotiating case-by-case transit fees depending on volumes and sources of gas, he espoused the view that Turkey needed to have some role in and knowledge of gas transit deals across its territory. Turkey would do this as a trading partner.

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What about TCP?  
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17. (C) Guler saw the trans-Caspian pipeline (TCP) as an effective tool to deal with an Iran and a Russia that are advantageously buying and reselling Turkmen gas. He asked why the U.S. was not more supportive of TCP. Ambassador said that Ambassador Mann, who recently saw President Niyazov, found no real change in Turkmenistan's attitude. Any effort to develop a route for east Caspian gas will depend first on a serious route for west Caspian gas, hence our interest in arrangements to get Azeri gas to Europe. Even with a Baku-to-Europe gas connection in place, Kazakh gas would likely be the catalyst for TCP. When it is really on the horizon, Niyazov would be more likely to join.

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Near-term Operational Steps  
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18. (C) Guler expressed recognition of the need to move quickly, recognizing that delays would benefit Russian interests. Noting the need to get European consumers committed and investors started on second and third phases of Shah Deniz in Azerbaijan, Ambassador called again for Turkey to identify clear and not overly onerous transit arrangements and to facilitate a timely direct and symbolic contract between Azerbaijan and Greece through the

Turkey-Greece-Interconnector (TGI) to show that the southern gas corridor is for real and that these countries can indeed cooperate to make it happen.

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Is Azerbaijan a Viable Source?  
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¶9. (C) Guler was supportive of facilitating trans-shipment of Azeri gas, but noted that Azerbaijan was undecided about its development and its quantities were still not certain and not sufficient to feed European needs. Georgia's needs were exaggerated. (He did not mention the arrangement whereby Turkey proposed to release to Georgia its 20% discretionary portion of its take-or-pay contract with Azerbaijan.) Guler also noted that Russia was placing immense pressure on Azerbaijan, Georgia, and Turkey to not move Caspian gas on to Europe to compete with Gazprom's monopoly.

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Turkey-Greece Interconnector is a Model  
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¶10. (C) Guler asserted that the token arrangement between the Turkish and Greek pipeline companies seeding the TGI was a model. When pressed, he admitted that this still constituted buying and reselling gas from Azerbaijan delivered on to Greece. Guler stated that he understood the Ambassador's point, but he insisted that transit fees would still have to be negotiated with commercial partners, and might vary based on volumes and sources, perhaps on a step basis.

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We Support Gas from Iraq  
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¶11. (C) Guler expressed enthusiasm for developing northern Iraq natural gas with egress via the oil pipeline right of way to Ceyhan. He also waxed about Turkey's resolve to develop an LNG terminal at Ceyhan. Ambassador noted that political questions made Iraq a questionable near-term gas source. While we would welcome work with Turkey to bring Iraqi gas to market, Ambassador urged that Guler focus first on Azerbaijan.

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Comment and Next Steps  
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¶12. (C) The Energy Minister is not lacking in grand vision. He is working on giant coal-fired power plants (Afsin-Elbistan), the controversial Ilisu Dam on the Tigris, multiple refineries (septel), and many lines on the map which are aimed at the southern gas corridor to Europe. While he has a sense of urgency and willingness to work out arrangements that will help facilitate sales, purchases, and investments for the southern corridor, he wants to control at least Iran's European sales through Turkey and to win a substantial share of the gas transit revenue stream for Turkey.

¶13. (C) Working on this with Turkey will take time. An iterative process makes sense: continued U.S.-Turkey discussions -- perhaps when EUR DAS Bryza and/or Senior Energy Advisor Hellman can next visit; U.S.-Turkey-Azeri talks, which need to come together soon -- perhaps not at the highest level until there is a clearer common understanding; and the southern corridor working group that would include Turkey, Azerbaijan, Georgia, Greece, and Italy, and at some stage adding the Nabucco partners (Austria, Hungary, Romania, and Bulgaria).

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<http://www.state.sgov.gov/p/eur/ankara/>

WILSON